

# **THIRD QUARTER**

**report to  
shareholders  
thirty-nine weeks  
ended**

**OCTOBER 29, 1977**



November 17, 1977

## TO OUR SHAREHOLDERS:

Strong sales led the way to record third quarter operating results for your company.

Volume (excluding sales of leased departments) rose 12.6% to \$312,910,000 during the 13 weeks ended October 29, 1977 and net income was \$3,143,000, or \$.62 per primary share, as compared with \$2,171,000, or \$.43 per share last year. The number of discount department stores in operation was the same as last year — 255.

The third quarter's gain in earnings overcame all of the shortfall in the first half. For the nine month period to date, total sales (excluding those of leased departments) were up 7.0% to \$850,098,000 and net income was \$4,422,000 or \$.86 per share versus \$4,253,000 or \$.84 per share in 1976.

Income from continuing operations for the full 52 week period through October 29th amounted to \$11,261,000, or \$2.23 per primary share, up from \$8,631,000, or \$1.71 per share in the prior trailing year.

We are pleased with the strong gains our stores have been registering since July. This reflects continued improvements in our operations and merchandising.

Further, in this economic environment the consumer has become increasingly "value-conscious" — an area of strength among those of us who are discount



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Chicago, Illinois 60639

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**2Quarterly**  
**Interim Report**  
For Six Months Ended  
June 30, 1978

## 2

## (in millions, except per share amounts)

NOTES:

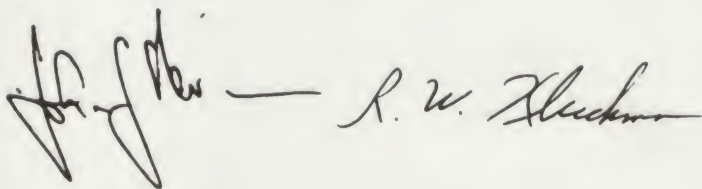
(2) On June 30, 1978, the Company entered into an agreement to dispose of the assets of the Company with the sale price to be finalized by the end of the third quarter of 1978. The assets and other current liabilities of the Company retained by the Company. The assets and other current liabilities of the Company's 1977 Annual Report, have been reclassified to reflect the transaction. The change in the previous provision for estimated loss on sale.



The previously announced manufacturing programs to move color television chassis and module assembly operations to Mexico and Taiwan continue to be on schedule. These plants are now supplying approximately 90% of the vertical chassis being assembled into sets in Zenith's U.S. assembly plants. The cost reductions associated with these relocations should benefit earnings in the third and fourth quarters of 1978.

On June 30, the Company entered into an agreement with a Swiss corporation to sell the majority of the assets of the discontinued watch operations. While the sale price has not yet been finalized, it is anticipated that the sale will not result in any significant impact on 1978 profits.

In May, the Company introduced a new concept in color television technology, called "System 3," which combines a new 100 percent modular chassis, a 100-degree tri-focus picture tube and automatic color control. This new color TV system offers demonstrable performance advantages and reliability improvements to the consumer and is designed to be the best performing, most dependable color TV in Zenith's history. The distributor and dealer reaction to "System 3" has been excellent.

The image shows two handwritten signatures in black ink. On the left is the signature of John J. Nevin, which is stylized and somewhat abstract. To its right is the signature of R. W. Kluckman, which is more legible and written in a cursive style. A horizontal line separates the two signatures.

John J. Nevin  
Chairman of the Board

R. W. Kluckman  
President

August 7, 1978

## To Zenith Stockholders:

Zenith Radio Corporation's earnings for the second quarter of 1978 were \$5.6 million, or 30 cents per share, compared to \$7.5 million, or 40 cents per share, in 1977. Earnings from continuing operations for the second quarter of 1977 were 41 cents per share. Sales from continuing operations totaled \$227 million for the second quarter of 1978, compared to \$237 million for the 1977 period.

Earnings for the first six months of 1978 were \$6.7 million, or 36 cents per share, compared to \$13.5 million, or 72 cents per share, in 1977. Earnings from continuing operations for the first half of 1977 totaled 76 cents per share. In the first six months of 1978, sales from continuing operations were \$441 million, compared to \$468 million for the same period in 1977.

The reduction in Zenith's dollar sales between the first half of 1977 and the first half of 1978 resulted primarily from a decision made by the Company to reduce distributor color television inventories and to hold inventories at levels lower than those of the comparable periods a year ago. Unit sales of color television sets to dealers by Zenith distributors during the first half of 1978 established an all-time first half record.

The major reasons for the decrease in pretax profit from continuing operations are summarized in the following table:

	<u>Second Quarter</u>	<u>First Six Months</u>
	(in millions)	
<u>Pretax Profit</u>		
1978	\$11	\$ 13
1977	15	27
Decrease in pretax profit	<u><u>\$(4)</u></u>	<u><u>\$(14)</u></u>
<u>Reasons for Change</u>		
Price reductions	\$(5)	\$(10)
Payroll and material cost increases	(7)	(14)
Color TV unit volume, manufac- turing efficiencies and other	8	10
Decrease in pretax profit	<u><u>\$(4)</u></u>	<u><u>\$(14)</u></u>

# Consolidated balance sheets (unaudited)

(in millions)

	June 30	
	1978	1977
	(Note 2)	
<b>Assets</b>		
Cash	\$ 8	\$ 5
Receivables, net	146	164
Inventories	187	209
Prepaid expenses and other, principally taxes	28	23
Total current assets	369	401
Property, plant and equipment, net	117	141
Property, plant and equipment pending disposal at net realizable value	8	—
Other assets	7	5
Total assets	<u>\$501</u>	<u>\$547</u>
 <b>Liabilities and stockholders' equity</b>		
Short-term debt—domestic	\$ 28	\$ 30
— foreign	16	9
Other current liabilities	124	142
Total current liabilities	168	181
Long-term debt	50	50
Long-term capital lease	4	—
Deferred income taxes	13	20
Stockholders' equity	266	296
Total liabilities and stockholders' equity	<u>\$501</u>	<u>\$547</u>

l to reflect discontinued operations which consist of the domestic hear  
ld during 1978, and the Canadian hearing instrument operation which

sell for notes the major portion of its watch operations to a Swiss cor  
d quarter. Certain assets and liabilities of the watch operations have  
es of the watch operations, previously classified as discussed in the Com  
ansaction. It is estimated that the sale will not require any significant



## A Breakthrough in Color TV



*SYSTEM 3, Zenith's new concept in color TV combines the Company's new Triple-Plus modular chassis, Tri-Focus picture tube with in-line electron gun, and Color Sentry™ automatic color picture control. It is designed to be the best performing, most reliable color TV system in Zenith's history. Shown is a new SYSTEM 3 model which also has Electronic Video Guard tuning, Power Sentry magnetic voltage regulating system and Space Command® 1200 remote control with Zoom, which provides an instant close-up of the center of the TV picture at the press of a button. Full-to-the-floor French Provincial cabinet is genuine pecan wood veneer on the top and ends with select hardwood solids framing the top. Front and base of cabinet are of simulated wood products with matching pecan color finish.*

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### **Important note**

To correct or change your address (or consolidate duplicate mailings as a result of several stock purchases), please make your request in writing to The First National Bank of Chicago, One First National Plaza, Chicago, IL 60670, Attention: Zenith Shareholder Services Department. Please include in your letter the current interim report address label(s) carrying your name and stockholder account number(s).

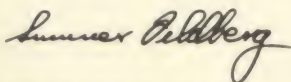


retailers. As noted in our last letter, we have taken steps to intensify the values inherent in our promotional offerings and expect to pursue this policy vigorously over the months ahead.

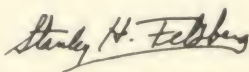
Merchandise gross margins have kept pace with last year — the effect of sharper pricing has thus far been offset by continued improvements in the mix of our sales and in the control of our markdowns.

We have entered the all-important fourth quarter on a positive note. Our inventories and promotional programs are well set. Encouraged by the strong tone of business our stores have been achieving, we anticipate a successful Holiday selling season.

Respectfully submitted,



SUMNER FELDBERG  
Chairman of the Board



STANLEY H. FELDBERG  
President

## FINANCIAL SUMMARY *(Unaudited)* Zayre Corp

(Dollars in Thousands)

	13 Weeks Ended	
	October 29, 1977	October 30, 1976
Net sales (excluding leased department sales)	<b>\$312,910</b>	\$277,893
Income from continuing operations before income taxes	<b>6,557</b>	4,523
Provision for federal and state income taxes	<b>3,414</b>	2,352
Income from continuing operations	<b>3,143</b>	2,171
Discontinued operations:		
Loss from discontinued owned credit plan, net of applicable income taxes	—	—
Loss on disposal of owned credit plan, net of applicable income taxes	—	—
Net income	<b>\$ 3,143</b>	<b>\$ 2,171</b>
Income from continuing operations per primary share	<b>\$.62</b>	\$.43
Net income per primary share	<b>.62</b>	.43
Fully diluted net income per share	<b>.59</b>	.42
Average number of common shares outstanding for primary computation	<b>4,983,750</b>	4,951,279
Self-service department stores in operation	<b>255</b>	255

(1) Reclassified to reflect results of discontinued operations separately from continuing operations.

(2) Includes the loss on discontinued owned credit operations of \$.38 and \$.36 per share.

## CONDENSED BALANCE SHEET *(Unaudited)*

(Dollars in Millions)

	October 29, 1977	October 30, 1976
<b>ASSETS</b>		
Current assets		
Cash	<b>\$ 19.0</b>	\$ 20.6
Accounts receivable and pre-paid expenses	<b>20.4</b>	17.0
Merchandise inventories	<b>350.5</b>	310.2
Total current assets	<b>389.9</b>	347.8
Property, net of depreciation and amortization	<b>82.6</b>	88.4
Other assets	<b>9.3</b>	8.7
<b>TOTAL ASSETS</b>	<b>\$481.8</b>	<b>\$444.9</b>

## c. and Consolidated Subsidiaries

<u>39 Weeks Ended(1)</u> <u>October 29, 1977</u>	<u>October 30, 1976</u>	<u>52 Weeks Ended(1)</u> <u>October 29, 1977</u>	<u>53 Weeks Ended(1)</u> <u>October 30, 1976</u>
<b>\$850,098</b>	\$794,367	<b>\$1,216,303</b>	\$1,146,017
<b>9,222</b>	8,861	<b>23,725</b>	17,796
<b>4,800</b>	4,608	<b>12,464</b>	9,165
<b>4,422</b>	4,253	<b>11,261</b>	8,631
—	—	—	(41)
—	—	—	(1,880)
<u><b>\$ 4,422</b></u>	<u>\$ 4,253</u>	<u><b>\$ 11,261</b></u>	<u>\$ 6,710</u>
<b>\$.86</b>	\$.84	<b>\$2.23</b>	\$1.71
<b>.86</b>	.84	<b>2.23</b>	1.33(2)
<b>.86</b>	.84	<b>2.13</b>	1.31(2)
<b>4,983,698</b>	4,952,709	<b>4,976,396</b>	4,947,783

ing operations. The Company's fiscal year ends on the last Saturday in January.  
share for primary and fully diluted net income respectively.

## d) Zayre Corp. and Consolidated Subsidiaries

	<u>October 29, 1977</u>	<u>October 30, 1976</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Notes payable to banks . . .	<b>\$ 40.0</b>	\$ 44.0
Current instalments of long-term debt . . . . .	<b>10.7</b>	11.4
Accounts payable and accrued expenses . . . . .	<b>190.2</b>	154.8
Total current liabilities .	<b>240.9</b>	210.2
Long-term debt (includes real estate mortgages) . . . . .	<b>100.8</b>	105.9
Deferred income taxes . . .	<b>10.1</b>	10.1
Shareholders' equity . . . . .	<b>130.0</b>	118.7
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .</b>	<u><b>\$481.8</b></u>	<u>\$444.9</u>

# Zayre Corp.

Framingham, Massachusetts 01701

CHANGE OF ADDRESS: Shareholders are requested  
to notify Corporate Services Department  
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